



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 6, 2004

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**REQUEST TO APPROVE CONTRACT WITH AMERICAN MANAGEMENT SYSTEMS,
INC. FOR SOFTWARE AND IMPLEMENTATION SERVICES TO UPGRADE THE
AUDITOR-CONTROLLER'S FINANCIAL SYSTEM
(ALL SUPERVISORIAL DISTRICTS AFFECTED)
(3 VOTES REQUIRED FOR APPROVAL)**

**CIO RECOMMENDATION: APPROVE (X) APPROVE WITH MODIFICATION ()
DISAPPROVE ()**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the attached Services and License Agreement (SLA) with American Management Systems, Inc (AMS) to provide an upgrade to the County's existing financial software system on a fixed price deliverable basis at \$9,565,000 for services and software plus five years of maintenance services at \$4,250,000 (\$850,000 per year) for a contract total of \$13,815,000, effective upon execution by your Board through the end of the fifth year of maintenance services estimated to be September 30, 2010.
2. Direct the Interim Director of the Internal Services Department (ISD) to purchase, through competitive bids or use of existing agreements with vendors, the hardware and software necessary for the operation of the AMS Advantage 3 software and third party software as described in Exhibit H to the SLA according to the Project Architecture and Schematic identified in Exhibit A – Appendix I to the SLA. These costs are estimated not to exceed \$3,500,000 during the term of the agreement.

"To Enrich Lives Through Effective and Caring Service"

3. Authorize the Auditor-Controller to execute change orders to the SLA necessary for the purchase of additional services utilizing contingency funds (not to exceed \$700,000) that are part of the \$9,565,000 identified in the first recommendation.
4. Approve the budget adjustment in the amount of \$17,315,000 to transfer funds from the Provisional Financing Uses to fund the SLA and needed equipment.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

This project cost of \$17,315,000 includes software acquisition, implementation services, an option for 5 years of extended maintenance services at a fixed annual fee after the end of the warranty period and equipment necessary to operate the system. In summary, AMS will provide the following:

1. A perpetual license for AMS's complete financial suite of software (as identified in Exhibit H of the SLA) necessary for the implementation of AMS Advantage software version 3.3 or later at no cost. In addition, AMS will provide perpetual licenses for third party software necessary for the implementation of the Advantage modules for a fixed fee of \$565,000.
2. Implementation services totaling \$8,300,000 for upgrading the AMS modules for the General Ledger, Accounts Payable, Accounts Receivable, Project Accounting, Cost Accounting, Grant Accounting and the Countywide Reporting Database (CWRD) operated by the Auditor-Controller. In addition, a contingency allocation (\$700,000), under the control of the County, is identified for a contract total of \$9,000,000 for implementation services.
3. Standard maintenance services for a period of 5 years following the end of the warranty period (October 1, 2005) at a fixed annual fee of \$850,000 per year covering all AMS financial software modules and third-party software provided by AMS under Exhibit H of the SLA.
4. Although not part of the implementation, the AMS financial suite also includes licenses for Budget Preparation, Asset Management, Purchasing and Inventory.

County Upgrade of CAPS

The County's central Countywide Accounting and Purchasing System (CAPS) is over 17 years old and in a version no longer supported by the vendor (AMS). In addition, the system has been modified heavily over that period of time and as a result has become complex and difficult to maintain due to a limited number of Auditor-Controller staff understanding the functionality and design of the existing system. A number of the County's check disbursement systems are over 30 years old and consolidation in a new Accounts Payable system would reduce on-going maintenance costs.

Accounts Payable system would reduce on-going maintenance costs.

The Auditor-Controller must address the weaknesses of the existing financial applications in CAPS and reduce the risks of operating an out-of-date financial system to meet its mission and to be responsive to the County's financial needs. An upgrade to the Auditor-Controller's financial systems is proposed as a cost effective approach which will:

- Provide improved financial information and support to decision-makers in as short a time frame as possible,
- Meet the growing demand for more timely, accessible and detailed financial information,
- Migrate the County's critical financial systems to a level supported by the product vendor,
- Improve the Department's ability to maintain and train the workforce on critical County financial systems,
- Lay a foundation for exploring more effective or efficient business processes, such as consolidating departments' fiscal functions, and
- Provide a technology upgrade for the infrastructure supporting the County's financial systems.

The Auditor-Controller is recommending entering into this agreement at this time in order to meet the County's need to upgrade the County's central financial systems as soon as practicable. The financial system upgrade is scheduled for July 1, 2005 under the proposed timetable. It is critical to begin this project as close as possible to the proposed fifteen month schedule in order to meet the proposed implementation date. The implementation date coincides with the beginning of a fiscal year which is an important factor as it will avoid complex mid-year conversions. In addition, it will allow improved monitoring of annual budgets against a new chart of accounts and provide for a more seamless implementation. If there is not sufficient time to complete the project by July 1, 2005, the Auditor-Controller would delay implementation of the newly designed system until the start of a future fiscal year.

The need to upgrade the County's financial system was anticipated in the budget for FY 2003 - 04. The Auditor-Controller has been working with the Chief Information Office and Chief Administrative Office to pursue an enterprise resource planning (ERP) strategy for the County. With the cancellation of the LACAS Request for Proposal in December 2003, and at the direction of the Board of Supervisors, the Auditor-Controller pursued cost effective alternatives for the upgrade of the CAPS financial system in order to meet our immediate needs.

Implementation of Strategic Plan Goals

The proposed contract promotes the Board-approved County Strategic Plan Goals of Service Excellence, Workforce Excellence, Organizational Effectiveness, and Fiscal Responsibility. In addition, the proposed contract lays the foundation for gathering the financial data and monitoring capabilities to support the County's initiative for Performance Counts and the Auditor-Controller's objective for consolidating and standardizing departments' fiscal functions.

FISCAL IMPACT/FINANCING

The total cost of the proposed project is \$17,315,000 through September 30, 2010. The project cost is comprised of the following:

Category	Amount
• Third party Software	\$ 565,000
• Implementation Services	\$ 8,300,000
• County Contingency	\$ 700,000
• Maintenance Services	\$ 4,250,000
SLA Total	\$13,815,000
• Equipment	\$ 3,500,000
Project Total	\$17,315,000

I. Services and License Agreement (SLA) - \$13,815,000

a. Third Party Software (\$565,000)

The cost of the third party software is payable to AMS during FY 2003-04 upon installation and acceptance of the software.

b. Implementation Services (\$8,300,000)

The contract for implementation services is a fixed price deliverable based contract for \$9,000,000 consisting of \$8,300,000 to provide for the services identified in the Statement of Work (SOW) (Exhibit A) and a contingency allocation of \$700,000 for the purchase of additional similar services beyond the deliverables also identified in the Statement of Work (SOW).

Implementation services in the SLA cover both a project period from the effective date of the agreement for approximately 15 months to the proposed

go-live date of July 1, 2005 and also a 15 month post-implementation period until September 30, 2006. Final acceptance is anticipated to occur after the end of this post-implementation period. The implementation services are identified in the SOW.

c. County Contingency (\$700,000)

The SLA contingency fee provides funds for the Auditor-Controller to purchase more of the same type of implementation services on a fixed price deliverable basis at the rates established in Exhibit C of the SLA. Due to the aggressive project schedule, the contingency funds provide the Auditor-Controller some flexibility to address immediate project needs and not impact the project schedule. These funds will be used for such items as additional training services, report development not covered in the existing business requirements, or unforeseen changes identified during the design and development stages of the project. The SLA establishes a process for the Auditor-Controller to sign change orders to the SLA for the provision of these additional services. These documents would be reviewed by County Counsel and reviewed and approved by the CIO.

d. Maintenance Services (\$4,250,000)

The SLA provides for warranty services to the base application software for 90 days after go-live (October 1, 2005). No maintenance service payments are due until the expiration of this warranty period. The Maintenance Provisions (Exhibit E of the SLA) cover a five-year period starting at the end of the warranty period for all software provided under the Software License (Exhibit H). Maintenance services are payable as indicated in the following table:

Fiscal Year	Payment
FY 2003 – 04	\$0
FY 2004 – 05	\$0
FY 2005 – 06	\$ 850,000
FY 2006 – 07	\$ 850,000
FY 2007 – 08	\$ 850,000
FY 2008 – 09	\$ 850,000
FY 2009 – 10	\$ 850,000
TOTAL	\$4,250,000

Maintenance services have no cost escalator for the five year period and provides for all software upgrades, new major releases, error fixes and

corrections.

II. Equipment - \$3,500,000

The cost of equipment to cover the web servers, application servers, database servers, and operating system software is estimated not to exceed \$3,500,000 as described in Exhibit H to the SLA according to the Project Architecture and Schematic identified in Exhibit A – Appendix I to the SLA.

The total project is funded by the transfer of \$17,315,000 from the Provisional Financing Uses to the Auditor-Controller's budget and all project costs will be identified under a separate organization code. Of the total project cost, \$9,565,000, plus a portion of the equipment allocation, will be encumbered by the Auditor-Controller in the current fiscal year. Any unspent project funds will be carried-over into future fiscal years to complete the project.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The proposed contract is a combined agreement for (1) implementation services to implement the software modules necessary for the Auditor-Controller to upgrade the County's CAPS financial system, (2) a perpetual software license for the AMS Advantage 3.3 (or later version) and related third-party software, the specific software modules to be implemented by AMS and (3) an agreement for standard maintenance services from AMS for the Advantage application and third-party software for a five-year period.

The Agreement provides in relevant part:

- A fixed price deliverable based contract for the services identified in the SLA and the Statement of Work.
- A perpetual license for all financial modules of the AMS Advantage 3.3 (or later version) and related third-party modules identified in Exhibit H – Appendix A of the SLA.
- Maintenance services according to Exhibit E (Maintenance Provisions) to the SLA that provide for five (5) years of the vendors standard maintenance services at a fixed amount of \$850,000 per year.
- Other professional services may be purchased during the term of the agreement at the rates provided in Exhibit C to the SLA. No additional services are contemplated at this time and would require a written amendment to the contract.

Other significant contract provisions are:

- AMS's agreement to comply with all of the Board mandated terms and

conditions identified in Exhibit I of the SLA.

- A 15% holdback on each invoice amount.
- The release of the holdback would be one-third (5%) at the completion of the post-implementation services for 1099 processing (approximately March 2006) and the remaining two-thirds (10%) at the point of final acceptance (estimated to be October 2006). A provision was added that the County may, at its discretion, release a portion of the holdback prior to final acceptance if a corrective action plan is specified by AMS for any remaining items. This would require approval of the Board of Supervisors.
- A Limit of Liability at 150% of the contract total during the project (\$19,672,500). In addition, for the maintenance periods, the Limit of Liability is at the total remaining annual maintenance amount (\$4,250,000 for the initial year and decreasing by \$850,000 annually). There are no additional performance securities in the agreement, such as a performance bond or a letter of credit.
- Two separate warranty periods depending on whether the software relates to the base software or third party software and a longer warranty period for customizations. The warranty period on the base software, including third-party products provided by AMS, is for 90 days past the go-live date (estimated at October 1, 2005). Customizations have a longer warranty period that extends for fifteen months after go-live to allow the County a full year of operation and completion of the County's Fiscal Year closing.
- Maintenance services (Exhibit E) are acquired under the standard level of service that AMS provides to all customers. During the implementation phase, the County will be provided a broader coverage under the SLA's definition of deficiency.
- The standard termination requirement for the County to recover its costs is still included, but was modified to give the County the right to pursue coverage of costs rather than AMS automatically paying those costs without a review.

In accordance with your Board's policy of employing outside counsel for certain information technology contracts, the law firm of Mitchell, Silverberg and Knupp was retained, and participated with County Counsel in the negotiations, review, and finalization of the proposed Agreement.

At the close of negotiations, and when an agreement had been reached in principle, the County learned for the first time that AMS was in the process of being acquired by another company, CGI Group, Inc.

In particular, on March 10, 2004, AMS announced a proposed acquisition of the corporation by a Canadian corporation, CGI Group, Inc. (CGI). AMS informed the

Auditor-Controller that, as part of the transaction, the two companies would merge their operations and brand the combined information technology (IT) services in the US market as CGI-AMS. The final corporate structure for CGI-AMS is not yet determined. The proposed transaction is a friendly acquisition that has received unanimous approval of both Boards of Directors. As part of the acquisition, AMS is also selling a portion of the federal defense contract business to a Virginia-based firm, CACI. This part of the transaction is for federal Department of Defense services unrelated to the County's proposed agreement with AMS.

CGI is a \$2.7 billion Canadian-based IT services corporation founded in 1976. CGI is the largest independent Canadian IT services company and the fifth largest independent in North America based on its headcount of approximately 20,000 employees. The mix of services provided by CGI include management of IT and business functions, systems development and integration and consulting.

AMS has represented to the Auditor-Controller that the acquisition is intended to provide CGI growth in the U.S. federal, state and local governmental market. Initial reaction from investors and the financial market is that the acquisition is a positive move for both companies.

AMS and CGI anticipate that the terms and conditions of the acquisition will be completed in May or June 2004. CGI has sent the Auditor-Controller a letter, assuring the County that it will honor the terms and conditions of the SLA and plans on continuing to provide support to the AMS Advantage 3 product line.

CONTRACTING PROCESS

The Auditor-Controller's current financial system (CAPS) is based on an AMS software product. As a current user of the AMS products, the County is eligible to obtain upgrades of the software products supporting our financial system. Based on the County's review of AMS's latest version, an upgrade of the CAPS legacy financial system was considered. As these upgrades are only available from AMS, and AMS is currently the only implementer of their software product, the Auditor-Controller requested AMS provide a proposal for the upgrade of the County's CAPS financial system following the cancellation of the solicitation process for implementation of an ERP. The provisions of the current 30 year software license agreement with AMS will be replaced in total by the software license provisions of this SLA.

In order to determine a cost estimate for the scope of the project, the Auditor-Controller provided AMS with the County's business requirements to support an upgrade for general ledger, accounts payable, accounts receivable, project

accounting, cost accounting, grant accounting and the Auditor-Controller's reporting database. Upon receipt of the AMS proposal, the Auditor-Controller, with the assistance of County Counsel and outside counsel, entered into contract negotiation with AMS as the sole provider and implementer of their AMS Advantage 3.3 products. Your Board was notified of this action in January 2004.

IMPACT ON CURRENT SERVICES

The proposed project to upgrade the Auditor-Controller's CAPS financial system will have an impact on all County departments. The redesign of the County Chart of Accounts will provide a more robust capability to categorize, allocate, monitor and report on financial expenditures and revenues.

The AMS Advantage 3.3 software product is a web-based application that will upgrade the technical platform from a mainframe based system to a server based application using a standard web browser, accessible across the County's Enterprise Network. This will allow for easier access to financial information throughout the County. The application design is an open architecture that will improve the County's ability to interface with other legacy systems utilizing currently acceptable standard programming languages.

The proposed project for the upgrade of the Auditor-Controller's financial system is being called eCAPS. The main provisions of the project plan include:

- Redesign of the County's Chart of Accounts by August 2004 for use in development of the County's FY 2005 -2006 budget.
- Design / prototyping sessions to provide an opportunity for all County departments to participate in the design of the new software applications to meet the County's needs on a county-wide and departmental basis.
- Minimal customization of the software application to meet the County's business requirements in Exhibit A – Appendix C of the SLA.
- Nearly 4,300 hours of training time purchased from AMS to provide for a co-training approach between AMS and County staff.
- Implementation of a reporting database to replace the current County-wide Reporting Database (CWRD) developed by the Auditor-Controller.
- Improved edits and workflow capabilities to enhance compliance with the County's Fiscal Manual.
- Post-implementation support from AMS for the first six months of operation, the annual 1099 process in January 2006 and the County's first Fiscal Year closing under the upgraded application in July through September 2006.

The project will be led by the Auditor-Controller and staffed with existing County

staff from several County departments. The Auditor-Controller is proposing to utilize twelve (12) existing staff from its Systems and Audit Divisions. In addition, the Auditor-Controller has requested several County departments, heavily impacted by the eCAPS project, contribute one or more full-time staff to the project. Internal Services Department will provide seven staff, and there will be one staff member from the Sheriff's Department, Department of Public Works and the Chief Administrative Office. The CIO will provide project oversight and assistance during the project.

One of the goals of the project will be to meet the Department of Health Services (DHS) financial requirements necessary to replace the DHS HBOC General Ledger and Accounts Payable applications. The DHS business requirements will be taken into account in the design of the new system, and DHS staff will be invited to participate in the design / prototyping sessions. We will be working with DHS to obtain necessary staff involvement in the project.

Operating costs for the project, including space, project staff equipment the ISD/ITS charges to the Auditor-Controller are proposed to be covered by the Auditor-Controllers' operating budget. A substantial portion of ISD/ITS charges to the Auditor-Controller will be offset by reallocation of ISD/ITS staff currently assigned to Auditor-Controller systems who will now be charged to the eCAPS Project.

Other Department's will be impacted by this project and will incur costs to:

- Modify their legacy systems that currently send or receive information from CAPS,
- Modify other Departmental systems that utilize the Chart of Accounts information,
- Revise internal procedures to conform to business processes for the upgrade system, and
- Participate in the design / prototyping, testing and training sessions for the project.

The cost impact for County departments' legacy systems and applications that will be affected by the change in the Chart of Accounts have not been included in the costs identified above.

CONCLUSION


Approval of this agreement will improve the County financial systems operated by the Auditor-Controller and greatly reduce the risks of outdated applications hindering the Auditor-Controller's ability to meet the County's financial needs. In

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addition, the new financial system will provide the County the capability for enhanced tracking and monitoring of its fiscal information. The revision of the County's Chart of Accounts under this project will provide a foundation for future directions in improving budget preparation and, performance tracking of the County's programs and services. It will also result in a more efficient, effective, and less risky operation through the consolidation of the County warrant writing systems. In many cases, standardization of County fiscal processes will allow for more consistent reporting of financial information across County departments.

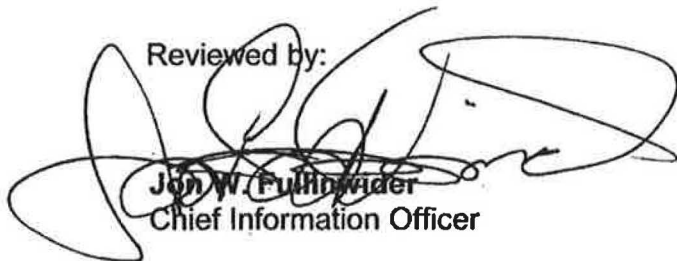
This proposed financial system lays the foundation to provide needed information in support of other major County initiatives such as linking Performance Counts! data with our financial data and making the County operations more efficient through a concurrent project to consolidate departments' fiscal functions.

Respectfully submitted,



J. Tyler McCauley
Auditor-Controller

Reviewed by:



Jon W. Fullinwider
Chief Information Officer

Attachments (1-Services and License Agreement)

c: Chief Administrative Officer
County Counsel